



6712-01

FEDERAL COMMUNICATIONS COMMISSION

47 CFR Part 54

[WC Docket No. 10-90; FCC 19-32]

Connect America Fund

AGENCY: Federal Communications Commission.

ACTION: Final rule.

SUMMARY: In this document, the Federal Communications Commission (Commission) eliminates the rate floor and, following a one-year period of monitoring residential retail rates, eliminates the accompanying reporting obligations after July 1, 2020.

DATES: Effective **[INSERT DATE 30 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]**.

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SUPPLEMENTARY INFORMATION: This is a summary of the Commission's Report and Order in WC Docket No. 10-90; FCC 19-32, adopted on April 12, 2019 and released on April 15, 2019. The full text of this document is available for public inspection during regular business hours in the FCC Reference Center, Room CY-A257, 445 12th Street SW, Washington, DC 20554 or at the following Internet address: <https://docs.fcc.gov/public/attachments/FCC-19-32A1.pdf>

I. INTRODUCTION

1. In 2011, the Commission adopted a rule aimed at limiting universal service support received by rural carriers whose rates are below a set minimum rate. This requirement is known as the "rate floor." If a carrier chooses to charge its customers less than the rate floor amount for voice service, the difference between the amount charged and the rate floor is deducted from the amount of support that carrier receives through the Universal Service Fund (Fund). Intended to guard against artificial subsidization of rural end user rates significantly below the national urban average, the practical effect of this rule has been to increase the telephone rates of rural subscribers, who are often older Americans on

fixed incomes, lower-income Americans, and individuals living on Tribal lands. These Americans are some of those least able to afford the needless rate increases caused by the rate floor. In 2017, after several years of experience with it, the Commission froze increases in the rate floor for two years to give us an opportunity to “revisit it to ensure our policies continue to further our statutory obligation to ensure ‘[q]uality services . . . available at just, reasonable, and affordable rates.’”

2. After a thorough review of the record evidence, the Commission now eliminates the rate floor and, following a one-year period of monitoring residential retail rates, eliminates the accompanying reporting obligations after July 1, 2020. Doing so ends the de facto federal mandate to needlessly increase telephone service rates for many rural Americans above those carriers would otherwise assess, and avoids a further increase from \$18 to \$26.98 on July 1, 2019—an increase that would have reduced the affordability of telephone service for rural Americans, including the elderly, low-income individuals, veterans, and their families. As a result, the Commission ensures that rural consumers continue to receive quality services at just, reasonable, and affordable rates, while also ensuring that rural carriers continue to receive the predictable and sufficient universal service support needed to serve high-cost areas.

II. DISCUSSION

3. The Commission finds that the rate floor, which leverages the Commission’s universal service support to penalize lower prices for rural Americans who may least be able to afford such increases, is not justified as a matter of policy. To the extent the rate floor ever served a public purpose, the Commission finds that purpose long since carried out. The Commission agrees with the diverse coalition including stakeholders like the AARP, the National Consumer Law Center, the National Tribal Telecommunications Association, and small, medium, and large rural telephone companies that the rate floor is inconsistent with the direction of the Communications Act to advance universal service while ensuring that rates are just, reasonable, and affordable. Accordingly, and based on an extensive and near-unanimous record, the Commission eliminates the rate floor.

4. *First*, the Commission finds that the rate floor creates a perverse incentive for carriers to raise local rates, harming consumers in rural areas and making telephone service less affordable. No one disputes that the rate floor has increased rates for voice service in rural areas, despite the Commission’s

goal to “preserve and advance universal availability of voice service.” These price increases negatively affect rural consumers and “could lead to some customers losing affordable access to basic service entirely.” The Commission finds the rate floor raises rates for—and has a particularly deleterious effect on—older Americans on fixed incomes, subscribers in Tribal areas, low-income consumers, and seasonal customers making traditional voice service less affordable, often for consumers who need the service most. Indeed, the record suggests that low rates often served “legitimate purposes [with] substantial public interest and safety benefits” at stake, for example, emergency phones, seasonal lines, or basic service for elderly or low-income consumers. Low rates for such service ensure that phone service and access to 911 service is available in the event of an emergency for customers that may not be able to afford telephone service at higher rates. There may be other reasons that market rates in rural areas could be below the national average urban rate. For example, prices may be higher for local urban rates because “urban customers have access to much more populous local calling areas than rural customers.” In addition, local urban rates are not uniform, so many urban consumers are paying rates below the national urban rate average.

5. *Second*, the Commission finds that the rate floor places unnecessary regulatory burdens on state commissions and rural telephone companies. For example, rural carriers must “expend limited internal resources to notify customers of impending rate increases and . . . seek permission from their state commission for such increases.” Moreover, a rate floor requires burdensome proceedings for rural incumbent LECs and state commissions related to rate increases and other compliance measures such as customer notifications and reporting obligations. The record reflects that rate increases caused by the rate floor burden both carriers and state commissions “where rate cases or other notices or applications are required to be prepared, filed and litigated,” often on an expedited basis “where urban rate survey completion and results are delayed” In other words, the rate floor creates needless state and federal regulatory compliance costs—wasting resources that could be better put to improving quality of service and closing the digital divide.

6. *Third*, the Commission finds that the rate floor is a particularly ineffective means of conserving scarce federal funds. Unlike other mechanisms to control expenditures, such as the cost

model for A-CAM carriers (which targets higher spending to higher-cost areas and limits spending available in lower cost areas) or the budget control mechanism for rate-of-return carriers (which limits total spending and creates incentives for carriers to control costs), the rate floor neither targets spending in an efficient manner nor creates incentives for carriers to control costs. Instead, it simply rewards carriers that artificially inflate prices, regardless of whether they invest efficiently or control their costs. And any purported savings from the rate floor have dissipated in recent years with the advent of the rate-of-return budget control mechanism—that’s because savings from the rate floor are redistributed to other rate-of-return carriers through increased headroom in the budget, with no overall savings to the Fund.

7. *Fourth*, to the extent that the rate floor was trying to solve the problem of “artificially low” rates, the Commission finds that it has outlived its usefulness. As a preliminary matter, the record does not support the notion that rates for voice service are artificially low. But in any case, as a result of the rate floor, the monthly recurring rate has risen and is now \$18 in many rural areas, and “ultra-low voice service rates are becoming relatively rare.” What is more, these rates are substantially higher than the Commission expected in 2011. At the time, the Commission anticipated that by July 2014 the rate floor would be “close to the sum of \$15.62 plus state regulated fees”—or \$16.80 in inflation adjusted terms.

8. *Fifth*, changes to the Fund’s support mechanisms for rural carriers since the rate floor’s adoption have largely eliminated any potential impact rates would have on the universal service support mechanisms. For example, the Commission has imposed concrete broadband buildout obligations on all legacy carriers, eliminated the support disparity between voice-only and broadband-only lines, and created incentives for legacy carriers to move from rate-of-return regulation to incentive regulation. Each of these changes reorients the Commission’s high-cost system from one tied to carriers’ historic costs and revenues from telephone services toward one where funding is tied to the fulfillment of certain broadband deployment obligations. And it is accordingly no surprise that the number of carriers potentially subject to the rate floor has rapidly diminished: Of the 940 study areas that were once potentially subject to the rate floor, only 654 are still subject to it.

9. In short, the Commission finds that the costs of either increased rates or reduced support (and therefore reduced deployment) ultimately borne by rural consumers outweigh any putative benefits to the Fund. The record in this proceeding overwhelmingly supports elimination of the rate floor rule; commenters agree that the rule imposes significant costs with little benefit. And the Commission agrees with one commenter that, in essence, “the rate floor penalizes rural customers without any real benefit to the overall size of the fund.” Accordingly, the Commission eliminates the rate floor rule and its accompanying reporting obligation.

10. The Commission disagrees with the only commenter that supports maintaining the rate floor. Although NCTA argues that eliminating the rate floor would skew competition and increase subsidies at the expense of consumers, the Commission finds the opposite to be true. Rural carriers receiving high-cost loop support can only recover their operating costs and investments where they face high per-line costs of providing service. Commission rules already require carriers to use subsidies to offset demonstrated high costs—not to subsidize below-market rates. Rather, the rate floor itself skews competition by artificially inflating the prices that certain carriers may charge—requiring a carrier to charge above-market rates in a town, for example, for fear of losing its support in the surrounding countryside. Without the rate floor, prices in competitive areas can freely adjust to competitive levels. And the rate floor is a double penalty for consumers since carriers can maintain their subsidies so long as they also charge consumers higher rates.

11. Finally, the Commission eliminates the reporting obligations associated with the rate floor after July 1, 2020, thereafter relieving carriers of the obligation to report residential local service rates. Although the Commission does not expect that carriers will begin charging artificially low rates as a result of the elimination of the rate floor, maintaining this reporting obligation for one year will allow the Commission to monitor any unexpected and significant changes in residential local services rates reported by carriers in their July 1, 2019 and 2020 annual filings.

III. PROCEDURAL MATTERS

A. Paperwork Reduction Act

12. This document eliminates a reporting requirement and contains no new information collection requirements subject to the Paperwork Reduction Act of 1995 (PRA), Public Law 104-13. In addition, the Commission notes that pursuant to the Small Business Paperwork Relief Act of 2002, Public Law 107-198, *see* 44 U.S.C. 3506(c)(4), it previously sought specific comment on how the Commission might further reduce the information collection burden for small business concerns with fewer than 25 employees. The document, by eliminating a reporting requirement, reduces any burdens on small entities.

B. Congressional Review Act

13. The Commission will send a copy of this Report and Order to Congress and the Government Accountability Office pursuant to the Congressional Review Act, *see* 5 U.S.C. 801(a)(1)(A).

14. *Regulatory Flexibility Act.*—The Regulatory Flexibility Act of 1980 (RFA) requires that an agency prepare a regulatory flexibility analysis for notice and comment rulemakings, unless the agency certifies that “the rule will not, if promulgated, have a significant economic impact on a substantial number of small entities.” In the Report and Order, the Commission is eliminating a rule and its accompanying reporting obligation. Accordingly, the Commission certifies that the rule changes adopted herein will not have a significant economic impact on a substantial number of small entities. The Commission will send a copy of the Report and Order in a report to be sent to Congress and the Government Accountability Office pursuant to the Small Business Regulatory Enforcement Fairness Act of 1996. In addition, the Commission will send a copy of the Report and Order to the Chief Counsel for Advocacy of the Small Business Administration. A copy of the Report and Order (or summaries thereof) will also be published in the Federal Register.

IV. ORDERING CLAUSES

15. Accordingly, IT IS ORDERED, pursuant to the authority contained in sections 201, 219, 220 and 254 of the Communications Act of 1934, as amended, 47 U.S.C. 201, 219, 220, 254, this Report and Order IS ADOPTED.

16. IT IS FURTHER ORDERED that Part 54, of the Commission's rules, 47 CFR Parts 54, IS AMENDED as set forth in the following.

17. IT IS FURTHER ORDERED that the rules adopted in this document WILL BECOME EFFECTIVE 30 days after the date of publication in the **Federal Register**.

List of Subjects in 47 CFR Part 54

Communications common carriers, Health facilities, Infants and children, Internet, Libraries,

Reporting and recordkeeping requirements, Schools, Telecommunications, Telephone.

FEDERAL COMMUNICATIONS COMMISSION

Marlene Dortch,
Secretary.

Final Rules

For the reasons discussed in the preamble, the Federal Communications Commission amends 47 CFR part 54 as follows:

PART 54—UNIVERSAL SERVICE

1. The authority citation for part 54 is revised to read as follows:

AUTHORITY: 47 U.S.C. 151, 154(i), 155, 201, 205, 214, 219, 220, 254, 303(r), 403, and 1302, unless otherwise noted.

2. Amend § 54.313 by revising paragraph (h) to read as follows:

§ 54.313 Annual reporting requirements for high-cost recipients.

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(h) In their annual reporting due by July 1, 2019 and July 1, 2020, all incumbent local exchange carrier recipients of high-cost support must report all of their rates for residential local service for all portions of their service area, as well as state regulated fees, to the extent the sum of those rates and fees are below \$18, and the number of lines for each rate specified. Carriers shall report lines and rates in effect as of June 1. For purposes of this subsection, state regulated fees shall be limited to state subscriber line charges, state universal service fees and mandatory extended area service charges.

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§ 54.318 [Removed and Reserved].

3. Remove and reserve § 54.318.

[FR Doc. 2019-09241 Filed: 5/6/2019 8:45 am; Publication Date: 5/7/2019]